

Message Text

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ACTION ARA-20

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SUBJECT: VENEZUELAN LIQUIDITY CONSTRICTION

REF: CARACAS A-185

SUMMARY. FOLLOWING THE ENUNCIATION OF THE PEREZ ADMINISTRATION ECONOMIC POLICY IN THE PRESIDENT'S APRIL 29TH SPEECH, WHICH AMONG OTHER ACTIONS AFFIRMED THAT THERE WOULD BE NO REVALUATION OF THE BOLIVAR, CAPITAL BEGAN LEAVING VENEZUELA, CREATING A CONSTRICTION IN LIQUIDITY. THE CONSENSUS IN LOCAL AMERICAN BANKING CIRCLES AT THIS TIME IS THAT WHILE CREDIT REMAINS EXTREMELY TIGHT, THE LIQUIDITY SITUATION HAS EASED SOMEWHAT IN RECENT WEEKS AND THE SCARCITY IS A TEMPORARY PHENOMENON. END SUMMARY.

1. SALES OF BOLIVARS PEAKED IN MAY WITH OUTFLOW FROM PRIVATE SECTOR ESTIMATED AT \$400 MILLION ABOVE NORM. JUNE AND JULY ESTIMATES ARE IN THE \$150-\$200 MILLION RANGE AND \$100-150 MILLION RANGE RESPECTIVELY.

REASONS OFFERED FOR OUTFLOW ARE: HIGHER INTEREST RATES ABROAD, DEPARTURE OF SPECULATIVE CAPITAL WHICH HAD ANTICIPATED BOLIVAR REVALUATION, RUMORS OF EXCHANGE CONTROLS, EARLY PAYMENT FOR IMPORTED GOODS IN EXPECTATION OF HIGHER PRICES AND MORE CURRENTLY,
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REPATRIATION OF PROFITS IN ADVANCE OF THE DEADLINE FOR COMPLIANCE

WITH DECISION 24. SOME OF THESE PROFITS HAD BEEN RETAINED TO THE PRESENT FOR SPECULATIVE REASONS IN ANTICIPATION OF REVALUATION. SOME OF THE EARLY OUTFLOW MAY HAVE BEEN FLIGHT CAPITAL ALTHOUGH BANKERS TEND TO DISCOUNT THAT FACTOR IN LATER TRANSACTIONS. IN ABSENCE OF EXCHANGE CONTROLS, DATA ON ORIGIN OF DEPARTING CAPITAL IS SKIMPY BUT IT IS BELIEVED THAT PRIVATE INDIVIDUALS ARE STIMULATING MOST ACTIVITY. IN A JOINT STATEMENT BY FINANCE MINISTRY AND CENTRAL BANK MADE AUGUST 13 THEY STATED THE GOVERNMENT WILL HAVE DATA WITHIN DAYS TO ANALYZE LIQUIDITY CONSTRICTION.

2. BANKERS ARE DUBIOUS ABOUT EFFECT OF REGULATION MAKING LOCAL BANKS CHARGE FOREIGN CUSTOMERS EFFECTIVE RATE OF 14 PERCENT INTEREST ON NEW LOANS. THEY POINT OUT SUCH LOANS AFFORD BANKS WIDER PROFIT MARGIN THAN DO LOCAL BORROWINGS; THUS THEY HAVE INCENTIVE TO CHANNEL FUNDS TO FOREIGN BUSINESS. RATIONALE OF REGULATION WAS TO MAKE LOANS TO FOREIGN BORROWERS IN VENEZUELA PROHIBITIVELY COSTLY FORCING THEM TO LOOK ELSEWHERE, AND FREEING BOLIVARS FOR DOMESTIC BORROWERS AT LOWER RATES. ACTION WOULD HAVE DESIRED EFFECT ONLY IF EURODOLLAR RATES ARE AT OR BELOW THE 14 PERCENT CHARGED IN VENEZUELA.

3. THERE IS LITTLE FEELING OF ALARM AMONG LOCAL AMERICAN BANKERS OR RESPONSIBLE GOVERNMENT CIRCLES WHO GENERALLY AGREE PHENOMENON OF TIGHT LIQUIDITY WILL BE OF SHORT DURATION. GOVERNMENT PLANNERS APPEAR MORE PREOCCUPIED WITH PROBLEM OF EXCESS LIQUIDITY LATER IN CALENDAR YEAR WHEN LARGE EXPENDITURES IN THE FORM OF DIRECT GOVERNMENT SPENDING AND DISBURSEMENTS THROUGH NEWLY CREATED FUNDS BEGIN TO WORK THROUGH PRIVATE COMMERCIAL CHANNELS.
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